

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-01 PRS-01 TAR-01 /082 W

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P R 151335Z AUG 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 956

INFO AMCONSUL SAO PAULO

AMCONSUL RIO DE JANEIRO

LIMITED OFFICIAL USE BRASILIA 7128

PASS TREASURY

E.O.11652: N/A

TAGS: EFIN, BR

SUBJECT: OFFICIAL BALANCE OF PAYMENTS FORECASTS FOR 1975

REF: BRASILIA 2814

1. SPEAKING BEFORE A MEETING OF THE COUNCIL OF THE
MAERICAS IN BRASILIA ON AUGUST 13, 1975, JOSE CARLOS FREIRE,
SECRETARY GENERAL OF MINISTRY OF FINANCE, GAVE THE
FOLLOWING BALANCE OF PAYMENTS PROJECTIONS FOR 1975:

HYPOTHESIS HYPOTHESIS

I II

(\$ BILLIONS)

EXPORTS (FOB)	11.0	10.0
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IMPORTS (FOB)	-12.0	-12.5
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TRADE BALANCE	- 1.0	- 2.5
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NON-FACTOR SERVICES	- 1.2	- 1.5
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FACTOR SERVICES	- 1.9	- 1.9
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OF WHICH:

INTEREST	(- 1.6)	(- 1.6)
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CURRENT ACCOUNT

BALANCE	- 4.1	- 5.9
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AMORTIZATION OF

DEBT	- 2.4	- 2.4
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FINANCING GAP	- 6.5	- 8.3
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FINANCED BY:

DIRECT INVESTMENT	1.0	1.0
IMPORT FINANCING	1.0	0.7
FINANCIAL LOANS	3.8	4.5
RESERVE LOSS	0.7	2.1

2. FREIRE PROJECTED OFFICIAL RESERVES AT \$5.0 BILLION AND THE FOREIGN DEBT AT \$19.6 BILLION AT THE END OF 1975 UNDER HYPOTHESIS I AND RESERVES AT \$3.0 BILLION AND THE FOREIGN DEBT AT \$20.0 BILLION UNDER HYPOTHESIS II.

BEGIN LOU

3. COMMENT: FREIRE CLAIMED THAT HYPOTHESIS I REPRESENTS THE MORE PROBABLY OUTCOME, ALTHOUGH HE ADMITTED THAT THE EXPORT PROJECTION OF \$11.0 BILLION IS SOMEWHAT OPTIMISTIC. FREIRE DESCRIBED HYPOTHESIS II AS PESSIMISTIC. BASED ON OUR OWN BALANCE OF PAYMENTS PROJECTIONS (REFTEL), EMBASSY BELIEVES, HOWEVER, THAT HYPOTHESIS II IS THE MORE REALISTIC ONE. OUR PROJECTIONS INDICATED A CURRENT ACCOUNT DEFICIT OF \$5.6 BILLION (AS COMPARED WITH FREIRE'S \$5.9 BILLION) AND A TOTAL FINANCIAL GAP OF \$8.1 BILLION (AS COMPARED WITH FREIRE'S \$8.3 BILLION). WHERE FREIRE'S PROJECTION DIFFERES FROM OURS IS ON THE FINANCING. UNDER HIS HYPOTHESIS II, HE PROJECTS TOTAL IMPORT FINANCING AT ONLY \$0.7 BILLION, AS COMPARED TO OUR ESTIMATE OF \$2.0 BILLION (INCLUDING BILATERAL AND MULTILATERAL AID). BRAZILIAN AUTHORITIES HAVE TOLD US THAT THE LIMITED OFFICIAL USE

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CENTRAL BANK REGULATIONS INSTITUTED LAST MARCH (BRASILIA 1614) REQUIRING IN EFFECT THAT ALL IMPORTS WITH A TARIFF RATE OF 37 PERCENT OR HIGHER BE PAID FOR IN CASH (REQUIRING THE EXCHANGE CONTRACT TO BE CLOSED PRIOR TO CUSTOMS CLEARANCE) COST BRAZILIAN RESERVES UP TO \$700 MILLION. OUR ORIGINAL BALANCE OF PAYMENTS PROJECTIONS WERE MADE BEFORE THESE MEASURES WERE ANNOUNCED AND THUS THE REASON FOR PROJECTING AN INCREASE IN IMPORT

FINANCING IN 1975. DURING 1974, BRAZIL RECEIVED \$1.6 BILLION THROUGH IMPORT FINANCING (SUPPLIERS' CREDITS) AND BILATERAL AND MULTILATERAL AID. RECENTLY, IMPORTERS WERE AGAIN PERMITTED TO FINANCE WITH FOREIGN FUND IMPORTS HAVING A TARIFF RATE OF 37 PERCENT OR HIGHER (SEE BRASILIA 5970).

4. NOTE. FREIRE'S OFFICIAL RESERVE PROJECTIONS FOR 1975 IMPLY A TOTAL RESERVE LEVEL AT THE END OF 1974 OF \$5.7 BILLION, WHEN IN FACT THE PUBLISHED RESERVE STATISTICS, BASED ON THE IMF DEFINITION OF OFFICIAL RESERVES , SHOWED OFFICIAL RESERVES AT THE END OF 1974 -5 \$5.23 BILLION. FREIRE DID NOT EXPLAIN THIS DISCREPANCY IN HIS PRESENTATION. EMBASSY ASSUMES THAT THE SECRETARY GENERAL WAS USING A DEFINITION OF RESERVES WHICH WAS MORE INCLUSIVE THAN THE ONE USED BY THE IMF. WE HOPE TO OBTAIN CLARIFICATION.
CRIMMINS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ESTIMATES, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BRASIL07128
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750282-1180
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750846/aaaaboav.tel
Line Count: 133
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 BRASILIA 2814
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 04 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 SEP 2003 by CunninFX>; APPROVED <04 SEP 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OFFICIAL BALANCE OF PAYMENTS FORECASTS FOR 1975
TAGS: EFIN, BR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006